



Fitch Affirms Nova Southeastern University's (FL) Rev Bonds at 'BBB+'; Outlook Stable

Fitch Ratings-New York-13 March 2017: Fitch Ratings has affirmed the outstanding 'BBB+' rating on the following series of bonds issued by The Town of Davie, Florida; the Florida Higher Educational Facilities Financing Authority (HEFFA); and/or the Broward County Educational Facilities Authority on behalf of Nova Southeastern University (NSU):

- \$86.87 million series 2016;
- \$94.16 million series 2013A;
- \$16.70 million series 2013B;
- \$42.67 million series 2012A;
- \$14.83 million series 2011.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by a pledge of and first lien on NSU's pledged revenues, which include tuition, fees, and dormitory revenues.

KEY RATING DRIVERS

POSITIVE OPERATING MARGINS: The 'BBB+' rating is supported by NSU's consistently strong operations, good debt service coverage, and focus on the health professions, which benefit from strong student demand.

MANAGEABLE DEBT: The university's continued generation of operating surpluses supports good debt service coverage, with maximum annual debt service (MADS) coverage of 3x in fiscal 2016. Additionally, the MADS burden remains manageable at 4.8% of operating revenue. Currently, there are no additional debt plans.

MODEST LIQUIDITY LEVELS: NSU maintains an adequate level of available funds (AF, defined as unrestricted cash and investments) for the rating category. AF at June 30, 2016 equaled 63.6% of debt and 47.7% of operating expenses.

HEALTH PROFESSIONS DRIVE DEMAND: NSU continues to benefit from high demand for programs in the health professions. These demand metrics are favorable, with continued application growth, very selective admissions and relative stability in matriculation rates. There has been some weakness in enrollment in undergraduate and other graduate programs, but NSU has managed these challenges well from a budgetary perspective.

RATING SENSITIVITIES

UNMANAGEABLE ENROLLMENT DECLINES: The rating is sensitive to Nova Southeastern University's continued ability to generate strong operating margins, despite ongoing enrollment pressure. Should enrollment declines continue without commensurate budgetary reductions, there could be negative rating action.

EXPOSURE TO BANK AGREEMENT TERMS: NSU has several outstanding bank loans that include certain non-financial-related covenants that could trigger an event of default and potential acceleration of certain debt, raising the risk to bondholders. Although NSU has sufficient resources to manage an acceleration of its bank loans, liquidity would be compromised, which could result in downward pressure on the rating.

CREDIT PROFILE

NSU is one of the largest independent universities in Florida, with its main campus located on 300 acres in Davie, FL. Total headcount enrollment for fall 2016 was 21,625, with FTE enrollment of 17,784.

FINANCIAL PERFORMANCE

One of NSU's major strengths is its history of consistent operating performance. A healthy 6.1% margin was generated in fiscal 2016, similar to

historical performance. Management reports that for fall 2016/fiscal 2017, consistent with past practice, the operating budget was adjusted to reflect actual fall enrollment. As a result, the university is tracking very close to budget through Jan. 31, 2017, despite lower enrollment.

AF totaling \$283.3 million as of June 30, 2016 are adequate for the rating category, equal to 47.7% of operating expenses and 63.6% of debt. Fitch expects some continued growth in AF over time due to NSU's strong cash flow and lack of additional debt plans.

DECLINING OVERALL ENROLLMENT

Overall enrollment trends have been down in recent years, primarily in the undergraduate and graduate programs, while health professions have continued to grow. To date, management has been able to successfully budget accordingly; however, should these trends overwhelm NSU's ability to adjust its budget, there may be pressure on the rating.

Fall 2016 headcount enrollment totaled 21,625, with a total FTE of 17,784. Year-over-year, there has been a decline in both headcount enrollment (6.9%) and FTE enrollment (6.7%). Some of this decline has been attributed to more stringent admissions standards (requiring a minimum 3.0 GPA for traditional students beginning in fiscal 2015), in line with NSU's goals to increase quality and retention.

Strategies are now in place to bolster recruitment. Intense marketing, specifically in education, is underway with the launching of new personal touch requirement strategies that are expected to align with strategic priorities, including improved student performance, engagement and retention. An interactive graduate enrollment website has been created and a direct email marketing campaign has been established targeting key affinity groups, in addition to other digital and social advertising campaigns in an effort to build greater graduate student demand.

The law school, like many in the country, continues to see declining enrollment. However, for fall 2016 total enrollment was 880, close to the budgeted level of 890. The budget for 2017 enrollment is conservative,

reflecting nationally weak law school demand trends.

STUDENT DEMAND MIXED

The health professions division continues to see strong demand, with applications growing 8% in fall 2016 over the prior year. The division is selective, with 18% of applicants approved for admission. At the same time, the matriculation rate is much stronger than the rate for freshman. In fiscal 2016, approximately 54% of accepted students chose to attend NSU.

While there have been some fluctuations in enrollment, NSU has good student demand, with steady growth in freshman applications. Fall 2016 saw a 51% increase in applications. This outsized increase has been attributed to the introduction of the Common Application. Nonetheless, the compound annual growth rate (CAGR) in applications over the period fall 2012 through 2016 was still 11%. Selectivity has remained fairly constant, with approximately 53% of applicants in fall 2016 accepted for admission.

STUDENT QUALITY AND RETENTION

Student quality, based on average SAT scores, was slightly above average at 1110 for the fall 2016 entering class. This level is above the historic rate and management anticipates continued improvement due to some of their programming efforts, including dual enrollment and the honors college. Additionally, freshman to sophomore retention has seen steady improvement and was 75% in fall 2016.

NEW PROGRAM OFFERINGS

Growth areas are focused on new programs in the health professions. The new college of allopathic medicine (MD program) is expected to accept its first class in fall 2018, subject to accreditation. Other new additions include MS of Science in Pharmaceutical Science beginning fall 2017, and MS in Pharmaceutical Affairs that began fall 2016. The costs of these expansions have already been budgeted. Additionally, there is also a BS in Public Health being proposed for fall 2017. Furthermore, management is currently evaluating whether to expand current programs in the health professions at

regional sites. Fitch views management's willingness to align offerings with market demand as a credit positive.

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Applicable Criteria

Revenue-Supported Rating Criteria (pub. 16 Jun 2014)

(<https://www.fitchratings.com/site/re/750012>)

U.S. College and University Rating Criteria (pub. 12 May 2014)

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